

## Message Text

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15  
ACTION SS-25

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P R 121455Z SEP 76  
FM AMEMBASSY KUWAIT  
TO SECSTATE WASHDC PRIORITY 6215  
INFO AMEMBASSY ABU DHABI  
AMEMBASSY CAIRO  
AMEMBASSY DOHA  
AMEMBASSY JIDDA

C O N F I D E N T I A L KUWAIT 4359

EXDIS

E.O. 11652: GDS  
TAGS: EAID, EFIN, KU, EG  
SUBJECT: ASSISTANCE TO EGYPT-GODE

REF: KUWAIT 4238

1. SUMMARY: I MET WITH FINMIN ATEEQY SEPTEMBER 11 AT HIS REQUEST FOR FURTHER DISCUSSION OF PROBLEM OF PROVIDING ASSISTANCE TO EGYPT. HE NOTED SIMILAR INTERESTS AND OBJECTIVES SHARED BY U.S. AND GODE COUNTRIES IN HELPING EGYPT. HE SAID KUWAIT DESIRED CLOSE CONSULTATION WITH USG ON THIS PROBLEM SINCE HE FELT THAT U.S. ADVICE WOULD BE MORE ACCEPTABLE TO EGYPTIANS THAN THAT OF SMALLER ARAB STATES. ATEEQY AGREED THAT ONE POSSIBLE VEHICLE FOR CONSULTATION COULD BE WORLD BANK CONSULTATIVE GROUP MEETING REPORTEDLY PROPOSED FOR DECEMBER IN PARIS. ATEEQY PROVIDED GLOOMY ANALYSIS OF CURRENT ECONOMIC SITUATION IN EGYPT AND EXPRESSED CONCERN OVER DAMAGE BEING DONE TO EGYPTIAN ECONOMY BY EGYPTIAN ECONOMIC LEADERS AND COMMUNIST-INSPIRED ELEMENTS, AIM OF LATTER BEING OVERTHROW OF SADAT GOVERNMENT. HE CITED NEED FOR OPENING OF ECONOMY TO PROJECTS WHICH WOULD STIMULATE ITS DEVELOPMENT. ATEEQY ALSO CONFIRMED THAT ONLY 25 OR 30 PERCENT OF THE GODE FUND WOULD BE AVAILABLE FOR BALANCE OF PAYMENTS USE AND THAT GODE WAS READY TO PROVIDE CASH AND LOANS, WITH REPAYMENT OF LATTER KEYED TO EGYPTIAN FIVE-YEAR PLAN. I BELIEVE OFFER OF COOPERATION AND  
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CONSULTATION WITH KUWAIT SHOULD BE FOLLOWED UP IN ORDER TO MAXIMIZE

EFFECT OF DONOR CONTRIBUTIONS OF ASSISTANCE TO EGYPT. END SUMMARY.

2. ATEEQY INVITED ME BACK SEPTEMBER 11 TO DISCUSS FURTHER SUBJECT OF ASSISTANCE TO EGYPT. HE RECOGNIZED U.S. INTEREST OF COOPERATION IN MIDDLE EAST, AND ESPECIALLY WITH EGYPT, IN ORDER TO PROMOTE PEACE IN THE AREA. HE CONFIRMED SIMILAR INTEREST OF ARAB COUNTRIES AND PARTICULARLY GODE NATIONS IN BOTH OBJECTIVES.

3. IN VIEW OF SIMILARITY OF INTERESTS AND OBJECTIVES, ATEEQY SAID KUWAIT SOUGHT COOPERATION WITH USG ON PROBLEM OF HELPING EGYPTIAN ECONOMY. HE SUGGESTED THAT THERE BE CLOSE CONSULTATION BETWEEN KUWAIT AND U.S. ON HOW ASSISTANCE MIGHT BE ACCOMPLISHED IN ORDER TO MOVE EGYPTIAN ECONOMY FORWARD. ATEEQY THOUGHT EGYPTIANS WOULD LISTEN BETTER TO U.S. THAN ITS ARAB BROTHERS BECAUSE OF SORT OF FATHER-CHILDREN RELATIONSHIP ATTITUDE WHICH EGYPTIANS AFFECTED TOWARD SMALLER ARAB STATES.

4. I ASKED WHETHER HE ALSO SAW AS A POSSIBLE VEHICLE FOR CONSULTATION THE WORLD BANK CONSULTATIVE GROUP MEETING WHICH EGYPTIAN ECONMIN ZAKI SHAFEI HAD APPARENTLY ANNOUNCED WOULD TAKE PLACE IN PARIS IN DECEMBER. ATEEQY NODDED ASSENT, NOTING THAT HE HAD RECEIVED LETTER FROM WORLD BANK ON THIS SUBJECT. HE SAID THAT HE WOULD RECOMMEND THAT KUWAIT RESPOND FAVORABLY TO INVITATION TO ATTEND, BUT WITHOUT MAKING ANY COMMITMENT. HE FELT THAT THERE WAS NEED FOR U.S. AND THE EEC COUNTRIES PARTICIPATING IN THE GROUP TO CONSULT CLOSELY WITH KUWAIT AND OTHER ARAB STATES. THEY WOULD HAVE TO JOIN IN BRINGING PRESSURE ON EGYPT TO TAKE STEPS NECESSARY TO REFORM ITS ECONOMY. HE OBSERVED THAT EGYPT HAD BACKED AWAY FROM AN AGREEMENT WITH IMF TO FREE EGYPTIAN POUND TO FIND ITS OWN LEVEL FOR COMMERCIAL EXCHANGE. THIS WAS ONE OF THE INITIAL STEPS GODE WOULD HAVE TO TAKE.

5. ATEEQY THEN PROCEEDED TO ANALYZE CURRENT SITUATION IN EGYPT IN FOLLOWING MANNER. HE SAID THAT WHILE SADAT PROCLAIMED QUOTE OPEN DOOR UNQUOTE POLICY FROM ABOVE, EGYPT WAS DIVIDED BELOW INTO TWO BRANCHES. ONE WAS AN OCTAPUS-TYPE LIMB COMPOSED OF TOP DIRECTORS OF EGYPTIAN ECONOMY WHO DISREGARDED QUOTE OPEN DOOR UNQUOTE AND QUOTE SUCKED UP UNQUOTE PROFITS AND OUTSIDE CONTRIBUTIONS. THE OTHER BRANCH WAS COMPOSED OF COMMUNIST-INSPIRED ELEMENTS IN THE BUREAUCRACY WHO SABOTAGED QUOTE OPEN

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DOOR UNQUOTE POLICY BY RAISING OBSTACLES TO VIABLE PROJECTS WHICH WOULD INFUSE STRENGTH IN THE EGYPTIAN ECONOMY. TWO BRANCHES COMPLIMENTED EACH OTHER WHILE THE MASS OF THE PEOPLE WERE CAUGHT IN THE MIDDLE. EVENTUAL RESULT WOULD BE UPRISING BY MASSES WHICH COMMUNISTS WOULD PROFIT FROM TO TAKE OVER THE GOVERNMENT WHILE QUOTE FAT CATS UNQUOTE LEFT FOR EUROPE AND U.S. WHERE THEY HAD INVESTED THEIR MONEY. IF SADAT REGIME WERE TO SURVIVE-- AND THIS IS IN BOTH U.S. AND MODERATE ARAB INTERESTS--SOMETHING

HAD TO BE DONE TO REVERSE THIS PROCESS OF ECONOMIC DETERIORATION.

6. ATEEQY CITED AS EXAMPLE KIND OF INVESTMENT KUWAIT COULD PROVIDE AN OFFER WHICH HE SAID WAS REJECTED BY EGYPTIAN AUTHORITIES. OFFER CONSISTED OF KUWAIT WILLINGNESS TO PROVIDE \$400 MILLION TO BUILD MEDIUM AND LOW-COST HOUSING DESPERATELY NEEDED IN EGYPT WHEREVER EGYPTIANS CHOOSE AND UNDER THEIR COMPLETE CONTROL AND DIRECTION. IN RETURN, KUWAIT WANTED EGYPT TO MAKE AVAILABLE IN AND AROUND CAIRO LAND AT A QUOTE REASONABLE PRICE UNQUOTE ON WHICH KUWAIT INVESTORS COULD BUILD MIDDLE-CLASS HOUSING AND OFFICE BUILDINGS FOR USE BY COMPANIES WHICH WISH TO SET UP BRANCHES IN EGYPT. KUWAIT ALSO SOUGHT POSSIBILITY TO BUY LAND IN CAIRO ON WHICH HOTELS, CINEMAS AND OTHER TOURIST-ORIENTED ENTERPRISES COULD BE ERECTED. ATEEQY OBSERVED, HOWEVER, THAT PEOPLES ASSEMBLY HAD PASSED LEGISLATION NOW BEFORE SADAT FOR SIGNATURE WHICH WOULD PROHIBIT OWNERSHIP OF LAND BY FOREIGNERS EXCEPT FOR RESIDENTIAL USE.

7. ATEEQY THEN PROVIDED ADDITIONAL DETAIL ON BALANCE OF PAYMENTS ROLE ENVISAGED FOR GODE FUND. HE CONFIRMED THAT AMOUNTS RESERVED AS LOAN GUARANTEES WOULD DIMINISH TOTAL CAPITALIZATION ACCORDINGLY. HE REITERATED THAT ONLY \$500 OR \$600 MILLION WOULD BE ALLOCATED FOR BALANCE OF PAYMENTS SUPPORT. HE FORESAW POSSIBLE ALLOCATION OF \$250 MILLION IN CASH WITH REMAINDER TO BE USED FOR LOAN GUARANTEES. SUCH LOANS COULD BE OBTAINED BY EGYPT EITHER ON COMMERCIAL MONEY MARKET OR THROUGH GODE. ATEEQY FELT LATTER WOULD PROVIDE BETTER TERMS, I.E., FIVE PERCENT INTEREST, TWO YEARS GRACE PERIOD AND THREE YEARS REPAYMENT. HE MENTIONED THAT IT WOULD BE BEST FOR EGYPT TO KEY LOANS TO FIVE-YEAR PLAN SO THAT REPAYMENT WOULD BE REALISTICALLY PHASED. EGYPT, HOWEVER, REJECTED THIS OFFER BECAUSE THEY WANTED TO OBTAIN LONG-TERM LOANS AT LOW RATE OF INTEREST, SUCH AS THOSE OFFERED BY U.S. FOR COMMODITY PURCHASES. IN RESPONSE TO MY QUERY, HE SAID THAT INTEREST ON

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CASH LOAN WOULD BE BETWEEN ONE TO THREE AND ONE-HALF PERCENT.

8. ATEEQY CONCLUDED BY EXPRESSING HOPE THAT COOPERATION AMONG EGYPT'S DONORS COULD BE ACHIEVED IN INTEREST OF IMPROVING EGYPTIAN ECONOMY. WITHOUT MAKING ANY SPECIFIC COMMITMENT AS TO CONSULTATION, I EXPRESSED VIEW THAT USG WAS INTERESTED IN COOPERATION ON AID TO EGYPT AND SAID THAT I WOULD REPORT ATEEQY'S VIEWS TO WASHINGTON FOR CONSIDERATION.

9. COMMENT: I FOUND ATEEQY OFFER OF CLOSE CONSULTATION AND COOPERATION QUITE INTERESTING, PARTICULARLY IN VIEW OF PREVIOUS UNWILLINGNESS OF SAUDIS AND KUWAITIS TO PARTICIPATE IN A CONSULTATIVE GROUP. HAVING RECENTLY OBSERVED EGYPTIAN ECONOMIC DEVELOPMENTS DURING MY TOUR IN CAIRO, I CAN UNDERSTAND ATEEQY'S FRUSTRATION IN TRYING TO PROMOTE THE IMPROVEMENT OF THE

EGYPTIAN ECONOMY AND PARTICULARLY TO ENCOURAGE THE ACCEPTANCE OF PROJECTS BY THE EGYPTIANS.

WHILE ATEEQY'S ANALYSIS OF THE EGYPTIANS ECONOMIC SITUATION MAY BE SOMEWHAT EXAGGERATED, THERE IS A GREAT DEAL OF TRUTH IN IT. THE POLITICAL REPERCUSSIONS THAT HE FORESEES AS POSSIBLE SHOULD NOT BE DISCOUNTED. I THEREFORE FIND ATEEQY'S WILLINGNESS TO RECOMMEND THAT KUWAIT PARTICIPATE IN A WORLD BANK CONSULTATIVE GROUP MEETING VERY ENCOURAGING. I BELIEVE THAT WE SHOULD SEIZE THIS OPPORTUNITY TO CONSULT CLOSELY WITH THE LARGE ARAB DONORS IN ORDER TO PROMOTE REFORM OF THE EGYPTIAN ECONOMY PREFERABLY, OF COURSE, THROUGH THE MEDIUM OF AN INTERNATIONAL CONSULTATIVE GROUP. WHILE I CANNOT IMAGINE THAT ATEEQY WOULD HAVE TAKEN THIS TACK WITHOUT THE GENERAL AGREEMENT OF THE SAUDIS, HE WOULD NOT COMMIT THE SAUDIS TO THIS POSITION IN RESPONSE TO MY QUESTION. IT WOULD BE USEFUL TO HEAR THE COMMENTS OF EMBASSIES CAIRO AND JIDDA AS WELL AS ABU DHABI AND DOHA ON THIS PROPOSAL BY ATEEQY FOR CLOSE CONSULTATION.

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## Message Attributes

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